

4 December 1981

MEMORANDUM FOR: Director of Central Intelligence

FROM : Robert M. Gates

SUBJECT : Assistance to Poland: Tuesday's NSC Meeting

1. The NSC is meeting on Tuesday to consider the \$740 million agricultural commodity credit extension to Poland. Poland's desperate last minute efforts to avoid default this month and the tension surrounding the government's breaking of the cadet firefighters' strike underscore the great fragility of that country's economy and internal peace. Even though Poland has muddled through the last year and avoided internal and Soviet military action, the economy in general and living conditions in particular have steadily continued to deteriorate. Despite signs in the last two months of emerging forms of political cooperation--noted in my last memo to you on this subject, neither Solidarity nor the government has undertaken the drastic economic reforms absolutely essential for economic stabilization and recovery. And now, in the last few days, there is mounting evidence that the regime is bent on a tougher stance toward strike activity--again raising the chance of violence and confrontation. The moderates in the government/Party and to a somewhat lesser extent in Solidarity currently, and again, seem to be under increasing pressure from hardliners--thus continuing the year long Polish political rollercoaster ride.

2. It is against this backdrop that the NSC meets to consider the \$740 million agricultural commodity credit, supplementing the food aid the President approved several weeks ago. The financial aspects of these credits and questions of conditionality should not be permitted to obscure the two basic policy questions confronting this government: (1) should the U. S. act to rescue Poland and its Communist government from economic disaster, and (2) is there any prospect that such an effort would succeed?

3. With respect to the first question, on balance, U. S. interests--not to mention moral and humanitarian considerations--are best served by continuation of the Polish experiment in pluralism. Indeed, signs of internal restiveness already are cropping up in Romania, Bulgaria, and even sporadically in the USSR. While this should not be over-estimated and may or may not have some connection to events in Poland, from the Soviet vantage point these disparate events almost certainly are viewed as related somehow and as harbingers of further trouble. I believe it is not going too far to say that the successful implantation of pluralism in Poland would represent the beginning of the end of Soviet-style totalitarianism

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in Eastern Europe, with extraordinary implications for all Europe and for the USSR itself. These would almost certainly be longer lasting than the political and military benefits to us of a Soviet military invasion of Poland. Thus, if the West can promote Polish economic recovery and, relatedly, the firm establishment of pluralism, our long-range strategic interests would be well served.

4. Whether assistance can succeed depends on what you regard as success. If you think success is Poland's economic stabilization and recovery, the answer in my view is a resounding "no." Poland is broke. It is on the very edge of bankruptcy. Primitive barter arrangements are replacing a worthless currency. Economic recovery would require far reaching reforms and austerity and this in turn would require major compromises by both Solidarity and the Party and remarkable--and so far rare--discipline on the part of Polish workers. The predominance of moderates in both organizations, under even harsher conditions and greater pressures than now exist, would be prerequisite for serious reform and, in the process, continued social, labor and political peace and cooperation. Despite certain positive political developments inside Poland during the last two months, in my view there is little likelihood that Solidarity and the Party can cooperate to formulate these essential reforms, much less persuade their cadres to accept and implement them.

(10.) A 5. Moreover, as the attached NFAC paper makes clear, any Polish stabilization and recovery program will require an enormous amount of financial assistance--perhaps \$~~one~~ billion a year for several years, [the coordinated response not only of a number of governments but of many private banks and financial institutions, and Poland's acceptance of tough-to-swallow conditional tranches of assistance and stiff politico-economic terms. I believe the prospect for agreement on joint action of this scope on the part of so many different parties with divergent interests is very dim.] In sum, I am very pessimistic about the prospects for needed Polish economic reforms and a foreign assistance package big enough to stabilize the Polish economy and put it on the road to recovery.

6. If you regard mere survival of the present proto-pluralistic Poland as "success," then assistance probably would help. My "optimistic" scenario for Poland is a continuation of the kind of political and economic muddling through that has characterized the last year: a series of tactical compromises by both sides, often at the brink of crisis, which forestall major military action but which make it all the more difficult for either the Party or Solidarity to make the kind of significant concessions required to get the economy back on its feet. [However, credits and assistance could buy some more time for Solidarity and the Party to work out a more lasting modus vivendi and see if they can get the country back to work.]

C 7. Thus, the NSC should recognize that further U. S. economic assistance is money put up at high risk primarily for political reasons: to prolong the Polish experiment. [The only justification for assistance is that our national security interests are well served by gambling \$740 million (or other sums) in credits in the hope that it will allow the Polish experiment to continue and in the knowledge that the experiment's very survival will contribute to the long-term unraveling of the Soviet position in Eastern Europe.] To paraphrase one

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of Imperial Russia's last (and best) Prime Ministers, we therefore probably should "wager on the muddle" and provide the credits in tranches with whatever conditions we can impose. It is a crapshoot for enormous stakes.



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Robert M. Gates

P.S. This meeting will take place on 8 December. The critical problem for Poland is the supply of food for the winter--between now and late March. If one allows a few days for a decision package to be prepared for the President and assuming his approval of it, the U. S. then still faces negotiations with Poland for the conditions of each tranche or for the package as a whole. Given past experience with negotiations, how much of the critical winter period will be left by the time the agreements are negotiated and signed and food actually begins to move to Poland? Someone should answer these questions. The way governments operate, it may be that the first deliveries of food might not take place until shortly before the end of the winter.

## POLAND

Poland muddled through year 1981. 1982 will be harder - deeper in whole currency worthless - reduced to barter arrangements.

- Have not undertaken drastic reforms required. No signs that either government or workers are ready to face up to required discipline.
- Any Polish stabilization program will require at least \$6 billion and we believe \$10 billion is a more realistic figure.
- Would require:
  - The coordinated response not only of a number of governments but of many private banks and financial institutions, and Poland's acceptance of tough-to-swallow conditional tranches of assistance and stiff politico-economic terms. The prospect for agreement on joint action of this scope on the part of so many different parties with divergent interests is very dim.
  - "Optimistic" scenario for Poland is a continuation of the kind of political and economic muddling through that has characterized the last year: a series of tactical compromises by both sides, often at the brink of crisis, which forestall major military action but which make it all the more difficult for either the Party or Solidarity to make the kind of significant concessions required to get the economy back on its feet.
  - However, credits and assistance could buy some time for Solidarity and the Party to work out a more lasting modus vivendi and see if they can get the country back to work. Thus, the NSC should recognize that further U.S. economic assistance is money put up at high risk primarily for political reasons: to prolong the Polish experiment.
  - The only justification for assistance is that our national security interests are well served by gambling \$740 million (or other sums) in credits in the hope that it will allow the Polish experiment to continue and in the knowledge that the experiment's very survival will contribute to the long-term unraveling of the Soviet position in Eastern Europe.

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CONTENTSTabs

- A Bob Gates' 16 November memo re Polish request
- B Polish request for \$740m credits
- C Polish request for \$200m emergency food aid
- D NFAC paper: Soviet Economic Leverage Over Poland
- E NFAC paper: The Impact of Aid on Poland's Prospects
- F Maurice Ernst's paper
- G Sec. Haig memo to President
- H PDB item "Poland: The Quest for Aid", 7 Dec 81

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